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Key Small Business Statistics

Canada

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Foreword

Key Small Business Statistics is a semi-annual publication that provides baseline data on the small business sector in Canada. This sixth edition updates data found in previous editions, removes outdated text and contains some new content. The following sections have been updated with new data:

- How many businesses are there in Canada?
- How many jobs do small businesses create?
- What is the contribution of small businesses to Canada's Gross Domestic Product?
- Do small businesses innovate as much as large firms?
- How many small businesses use e-business?

Furthermore, much of the content in "Do small businesses innovate as much as large firms?" was replaced with updated research based on Statistics Canada's Survey of Innovation 2003. The tables on self-employment (Tables 10, 11 and 12) were reduced in size and the two tables on exporting (Tables 15 and 16) were combined. Also, the section "How long do small businesses survive?" was removed because the data were from a study that covered the 1984–1995 period. All of the historical data can be found in previous editions of *Key Small Business Statistics* located at **www.strategis.gc.ca/sbstatistics**.

When is a business "small"?

The size of a business can be defined in many ways, by the value of its annual sales or shipments, for example, or by its annual gross or net revenue, the size of its assets or the number of its employees. Many institutions define small businesses according to their own needs: the Canadian Bankers' Association classifies a company as "small" if it qualifies for a loan authorization of less than $250 000, while the Export Development Corporation defines small or "emerging" exporters as firms with export sales under $1 million. Industry Canada has often used a definition based on the number of employees: goods-producing firms are considered "small" if they have fewer than 100 employees, while for service-producing firms the cut-off point is seen as 50 employees. Above that size, and up to 499 employees, a firm is considered medium-sized. The smallest of small businesses are called micro-enterprises, most often defined as having fewer than five employees. The term "SME" (for small and medium-sized enterprise) is used to refer to all businesses with fewer than 500 employees, while firms with 500 or more employees are classified as "large" businesses.

As will be seen, in practice, reporting on small businesses can seldom adhere to any strict definition due to data limitations.

How many businesses are there in Canada?

The Business Register of Statistics Canada maintains a count of business establishments[1] and publishes results twice a year. Some business establishments can belong to the same company and each company owns at least one business establishment. For an individual business establishment to be included in Statistics Canada's Business Register, the company to which it belongs must meet at least one of the following minimum criteria: have at least one paid employee (with payroll deductions remitted to the Canada Revenue Agency — CRA), or have annual sales revenues of $30 000, or be incorporated and have filed a federal corporate income tax return at least once in the previous three years.

As of June 2005, there were more than 2.2 million business establishments[2] in Canada, as shown in Table 1. About half of all business establishments are called "employer businesses," because they maintain a payroll of at least one person (possibly the owner). The other half are classified as "indeterminate" because they do not have any employees registered with the CRA. Such businesses may indeed have no workforce (they may be simply paper entities that nonetheless meet one of the criteria for being recognized as a business establishment), or they may have contract workers, family members

1. Statistics Canada uses four standard statistical business units for purposes of compiling statistics. Establishments are the smallest unit/grouping for which data are published. Establishments must:
   a) produce a homogeneous set of goods or services;
   b) not cross provincial boundaries; and
   c) provide data on the value of output together with the cost of principal intermediate inputs used, along with the cost and quantity of labour resources used to produce the output.

   For example, a business unit of a larger enterprise that provides independent accounting information to the government on sales taxes and payroll deductions would be recognized as an individual business establishment.
2. This number includes both commercial and non-commercial business establishments.

and/or only the owners working for them. Because information about their workforce is not available, the "indeterminate" category was created.

Approximately 58% of all business establishments in Canada are located in Ontario and Quebec. Virtually all the rest are divided up between the western provinces (36%) and the Atlantic provinces (6%). The Northwest Territories, the Yukon and Nunavut only represent 0.3% of Canada's businesses.

Table 1: Total Number of Business Establishments, and Number of Establishments Relative to Provincial/Territorial Population and Gross Domestic Product, June 2005

Provinces/Territories	No. of Business Establishments			No. of Establishments per 1000 Population	GDP per Business Establishment ($ thousands)
	Total	Employer Businesses	Indeterminate[1]		
Newfoundland and Labrador	25 517	17 064	8 453	49.4	762
Prince Edward Island	10 252	6 532	3 720	74.4	392
Nova Scotia	52 694	30 393	22 301	56.2	567
New Brunswick	42 456	26 218	16 238	56.4	541
Quebec	466 116	238 359	227 757	61.5	569
Ontario	836 030	349 010	487 020	66.9	619
Manitoba	75 181	35 509	39 672	63.9	532
Saskatchewan	95 547	39 303	56 244	96.1	419
Alberta	303 405	141 823	161 582	93.7	617
British Columbia	334 552	160 135	174 417	78.9	470
Yukon Territory	2 836	1 580	1 256	91.8	498
Northwest Territories	2 690	1 731	959	62.5	1 552
Nunavut	885	629	256	29.7	1 192
Canada Total	**2 248 161**	**1 048 286**	**1 199 875**	**69.9**	**574**

Source: Statistics Canada, Business Register, June 2005; National Income and Expenditure Accounts 2005; Estimates of Population by Age and Sex for Canada, the Provinces and the Territories, June 2005.

Note 1: The "indeterminate" category consists of incorporated or unincorporated businesses that do not have a CRA payroll deductions account. The workforce of such businesses may consist of contract workers, family members and/or owners.

Relative to population, the western provinces, the Yukon and Prince Edward Island have more business establishments than elsewhere, with the highest rates in Saskatchewan and Alberta at 96.1 and 93.7 per 1000 population, respectively. Nunavut, Newfoundland and Labrador, Nova Scotia and New Brunswick have the lowest ratios of business establishments per 1000 population. Ontario and Quebec are below the national average of 69.9, with 66.9 and 61.5 business establishments per 1000 people, respectively.

In terms of Gross Domestic Product (GDP) per business establishment by province, the Northwest Territories shows the highest ratio at $1 552 000 per establishment. (This is likely due, in part, to the low number of establishments per 1000 residents and therefore its GDP is spread over fewer establishments.) More broadly, there is a noticeable negative relationship between the number of establishments per 1000 inhabitants and the per-establishment GDP in the sense that a higher number of establishments per

1000 population corresponds to a lower per-establishment GDP. Alberta is an exception to this rule with a relatively high GDP per establishment and a high number of establishments per 1000 residents.

Of the 1 048 286 employer businesses, slightly fewer than 3000 or about 0.3% have more than 500 employees. The vast majority of employer businesses (98%) have fewer than 100 employees, nearly 74% have fewer than 10 and 57% have only 1 to 4 employees (see Table 2).

Table 2: Number of Business Establishments by Sector and Firm Size (Number of Employees), June 2005

Number of Employees	Cumulative Percent of Employer Businesses	No. of Business Establishments		
		Total	Goods-Producing Sector[2]	Service-Producing Sector[2]
Indeterminate[1]		1 199 875	326 855	873 020
Employer Business Total	*100.0*	*1 048 286*	*242 451*	*805 835*
1–4	56.5	592 694	147 546	445 148
5–9	73.7	179 533	35 511	144 022
10–19	85.8	126 739	24 556	102 183
20–49	94.5	91 749	19 508	72 241
50–99	97.6	32 100	8 195	23 905
100–199	99.0	15 143	4 323	10 820
200–499	99.7	7 412	2 201	5 211
500+	100.0	2 916	611	2 305
Grand Total		**2 248 161**	**569 306**	**1 678 855**

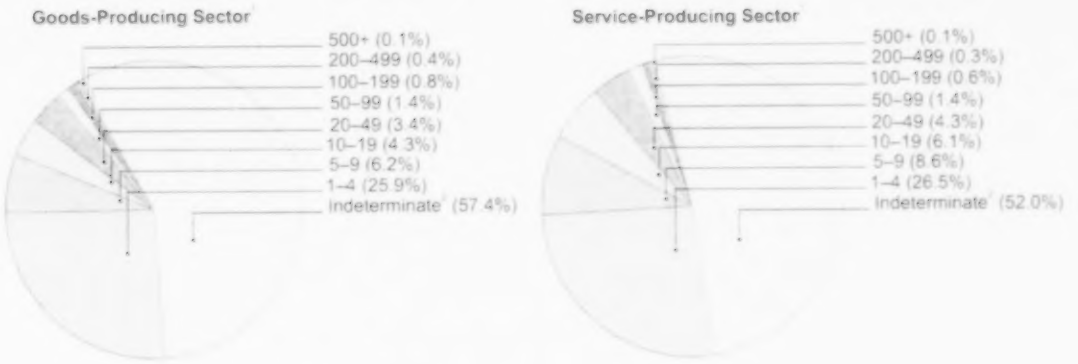
Source: Statistics Canada, Business Register, June 2005.

Note 1: The "indeterminate" category consists of incorporated or unincorporated businesses that do not have a CRA payroll deductions account. The workforce of such businesses may consist of contract workers, family members and/or owners.

Note 2: By conventional Statistics Canada definition, the goods-producing sector consists of North American Industry Classification System (NAICS) codes 11 to 31–33, while NAICS codes 41 to 91 define the service-producing sector.

About one quarter of all business establishments (indeterminate and employer businesses alike) produce goods, while the remainder provide services. Small firms (those with fewer than 100 employees) make up 97% of goods-producing employer businesses and 98% of all service-producing employer businesses (Table 2 and Figure 1). Using an alternative definition of small businesses in the service-producing sector that defines small businesses as those with fewer than 50 employees, small firms account for 95% of all service-producing employer firms.

Figure 1: Distribution of Business Establishments in the Goods-Producing and Service-Producing Sectors by Firm Size (Number of Employees), June 2005



Source: Statistics Canada, Business Register, June 2005

Note 1: By conventional Statistics Canada definition, the goods-producing sector consists of North American Industry Classification System (NAICS) codes 11 to 31–33, while NAICS codes 41 to 91 define the service-producing sector.

Note 2: The "indeterminate" category consists of incorporated or unincorporated businesses that do not have a CRA payroll deductions account. The workforce of such businesses may consist of contract workers, family members and/or owners.

Table 3 shows the distribution of employer businesses by size of business establishment in each province and territory. Generally speaking, the distribution in the provinces is similar to the national average. However, there is some variation among the provinces and territories: for example, there is a higher percentage of micro-enterprises (1 to 4 employees) in Quebec (62%) and Newfoundland and Labrador (60%) than in Ontario (53%), Manitoba (52%) or the territories (from 29% to 51%).

Table 3: Employer Businesses by Firm Size (Number of Employees) in Provinces and Territories, June 2005

Provinces/Territories	Employer Businesses										
		Percent of Total									
	Total	1–4	5–9	10–19	20–49	50–99	*Small <100*	100–199	200–499	*Medium 100–499*	Large 500+
Newfoundland and Labrador	17 064	60.0	18.0	10.5	7.3	2.3	*98.0*	1.0	0.6	*1.7*	0.3
Prince Edward Island	6 532	57.0	17.6	12.5	8.8	2.4	*98.4*	0.9	0.5	*1.4*	0.2
Nova Scotia	30 393	55.8	17.8	12.3	8.7	3.1	*97.7*	1.5	0.6	*2.1*	0.3
New Brunswick	26 218	58.3	17.2	11.6	8.2	2.6	*98.0*	1.2	0.6	*1.8*	0.2
Quebec	238 359	62.3	16.0	10.0	7.1	2.5	*98.0*	1.2	0.6	*1.8*	0.3
Ontario	349 010	52.6	17.3	13.2	10.1	3.7	*96.9*	1.8	0.9	*2.7*	0.3
Manitoba	35 509	52.2	18.0	13.8	10.0	3.4	*97.4*	1.5	0.8	*2.3*	0.3
Saskatchewan	39 303	57.1	18.2	12.5	8.2	2.4	*98.3*	1.0	0.5	*1.5*	0.2
Alberta	141 823	56.6	17.2	12.3	8.6	3.0	*97.7*	1.4	0.7	*2.1*	0.2
British Columbia	160 135	57.1	17.6	12.2	8.3	2.7	*98.0*	1.2	0.6	*1.8*	0.2
Yukon Territory	1 580	50.9	19.2	14.5	10.6	2.8	*98.0*	1.2	0.6	*1.8*	0.1
Northwest Territories	1 731	39.2	20.1	18.5	14.5	4.5	*96.8*	2.2	0.8	*3.0*	0.2
Nunavut	629	28.8	23.2	21.0	18.0	6.0	*97.0*	2.1	0.8	*2.9*	0.2
Canada Total	**1 048 286**	**56.5**	**17.1**	**12.1**	**8.8**	**3.1**	**97.6**	**1.4**	**0.7**	**2.2**	**0.3**

Source: Statistics Canada, Business Register, June 2005

Where are the self-employed in this count of businesses?

The designation "self-employed" is most commonly used as defined in Statistics Canada's *Labour Force Survey*, which is a count of the labour force (see **Who is self-employed?**). This section, on the other hand, provides counts of business establishments. It is easy to confuse the two because of the common perception that self-employed workers operate their own businesses. While this is generally true, the two are distinct counts. These counts relate as follows. First, a business owned by a person who is identified as self-employed and who is on the payroll would be captured as an "employer business" in the appropriate size category (Tables 1 to 3). Likewise, the business of a self-employed owner who is *not* on the payroll and has nobody else on the payroll, would be counted among the 1.2 million "indeterminate" business establishments (Tables 1 and 2). On the other hand, while many self-employed persons operate a business, many others do not, at least not in the sense of how the term "business" is defined by the Business Register (see **How many businesses are there in Canada?**), and thus would not be included in the count of business establishments. It is not known to what degree there is a correspondence between the 2.2 million "business establishments" in Canada and the estimated 2.5 million persons in the population who identify themselves as "self-employed." For more on self-employment, see also **How many people are self-employed?** For more on small business employment based on payroll data, see **How many people work for small businesses?**

How many businesses appear and disappear each year?

Thousands of businesses enter and exit the marketplace throughout the year. Keeping track of these births and deaths is no easy matter. The best source is Statistics Canada's *Longitudinal Employment Analysis Program* (LEAP), which can be tabulated to compare businesses in a base year with those in the following year.[3] If a business is observed to exist in the base year but not in the following year, it is considered an "exit" and vice versa for an "entry." While there may be other reasons why a business cannot be found in either year,[4] the data give a good overall picture of the turbulence (often called "churn") of new and disappearing businesses.

The LEAP data are based on payroll deduction information issued by employers (T4 slips) and therefore cover only employer businesses. The counting unit of "employee" used in these tabulations is an Individual Labour Unit (ILU), a derived unit that equates one ILU to one employee. If an employee receives one T4 slip in a year, they are assigned one ILU. If an employee receives more than one T4 slip, their "unit" is distributed among issuing firms in proportion to the wages earned. However, hours of work are not accounted for so no distinction is made between full-time and part-time workers.

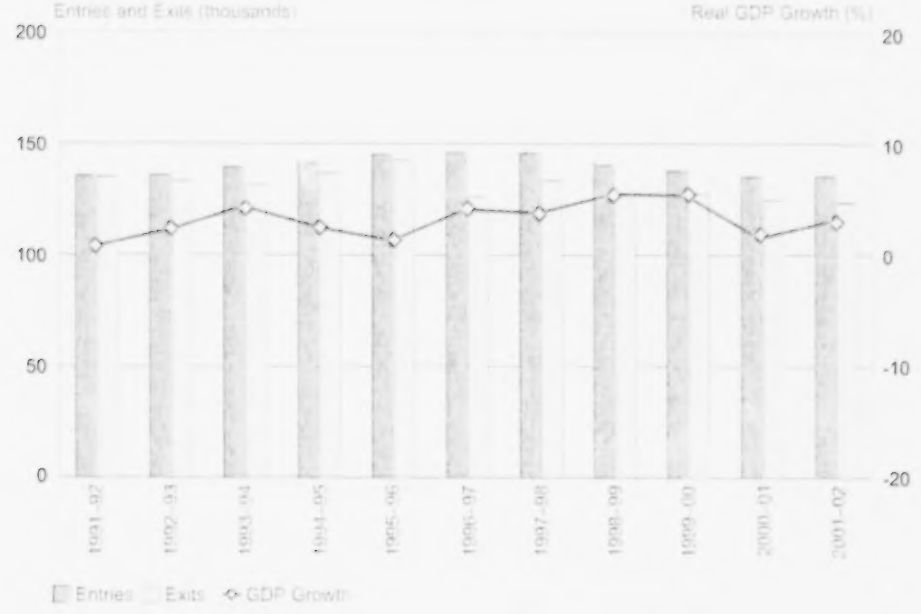
Figure 2 shows the number of SMEs (those with from 1 to 499 employees) that entered and exited the marketplace annually between 1991 and 2002. The number of entries increased over the first half of the period from approximately 135 000 to a peak of 146 000 in 1996–97. After this, the number of annual entries steadily declined to the level at the beginning of the period, i.e., 135 000. The number of exits in each year was between 130 000 and 135 000 in the early 1990s. However, once the economy stopped growing in the mid-1990s, the number of exits grew to 143 000 in 1995–96. Following this peak, the number of annual exits dropped and remained at approximately 127 000 for each year until 2002. On a net basis, entries averaged approximately 8800 annually from 1991 to 2002, but were near zero in 1991–92.

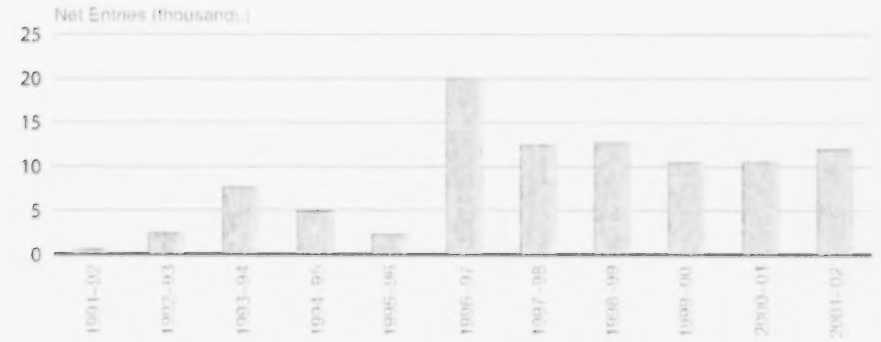
Figure 2 also shows entries and exits in relation to real GDP growth, a measure of the rate of expansion of the economy and its ability to produce goods and services. The number of entries increased during the early and mid-1990s, but declined after 1996–97. In contrast, the number of exits was more cyclical during this period and was negatively correlated with GDP growth. The number of net entries also appears to be negatively correlated with GDP growth and is influenced more by the total number of exits than entries. This suggests that exit and survival rates are more influenced by the business cycle than entry rates.

3. Statistics Canada used to publish entry and exit data in *Employment Dynamics*, which was based on data from the *Longitudinal Employment Analysis Program* (LEAP). *Employment Dynamics* is no longer published, so special tabulations of the LEAP file were ordered to obtain entry and exit data. These new data are consistent with the data reported in previous issues of *Key Small Business Statistics*: data from LEAP and *Employment Dynamics* are nearly identical over the 1991–92 to 1998–99 period.

4. Reorganization in a firm may involve name changes, mergers, a division of existing payroll accounts or more. To the greatest extent possible, false signals about deaths and births are deleted from the data. A legitimate firm death can occur in certain merger cases, as a result of an owner's decision to cease operations, because the firm has gone bankrupt, or for a number of other reasons. For more on bankruptcies, see **Bankruptcy statistics**.

Figure 2: Entries and Exits of Employer Businesses with up to 500 Employees, and GDP Growth, 1991–92 to 2001–02





Source: Statistics Canada, special tabulations of data from the *Longitudinal Employment Analysis Program*, 1991–92 to 2001–02; National Income and Expenditure Accounts.

Bankruptcy statistics

Only a small proportion of firms that exit the marketplace end up filing for bankruptcy. On average over the last 13 years, there have been approximately 12 000 business bankruptcies per year in Canada. They gradually increased from about 11 000 in 1990 to a peak of more than 14 000 in 1996. Since then, business bankruptcies have been on the decline, to about 8100 in 2004.

More detailed statistics on business bankruptcies and the liabilities involved are regularly reported in Industry Canada's *Small Business Quarterly*, and are also available on the website of the Office of the Superintendent of Bankruptcy at **http://osb-bsf.gc.ca**.

How many people work for small businesses?

To best answer this question, it is necessary to look at business establishments as part of the larger enterprise to which they belong, where applicable. Statistics Canada defines a business enterprise as "a family of businesses under common ownership and control for which a set of consolidated financial statements is produced on an annual basis." Statistics Canada's *Survey of Employment, Payrolls and Hours* (SEPH) covers employer businesses in Canada and reports the number of employees at the enterprise level. Self-employed persons who are not on a payroll are not included in these figures, nor are employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. Firms are grouped into seven size categories: those with fewer than 4 employees, from 5 to 19, from 20 to 49, from 50 to 99, from 100 to 299, from 300 to 499, and 500 and more employees.

According to SEPH data, on average in 2004, just over 5.0 million employees on payroll, or 49% of the total private labour force,[5] worked for small enterprises (those with fewer than 100 employees), as shown in Table 4. Over 1.6 million, or 16%, worked for medium-sized enterprises (those with 100 to 499 employees). In total, therefore, SMEs employed close to 6.7 million, or 65%, of all employees in the private sector covered by SEPH.

The distribution of employment by size of firm varies considerably across industries. As shown in Table 4 and Figure 3, small businesses account for over two thirds of employment in four industries: the (non-institutional) health care sector (90%), construction industry (77%), other services (73%), and accommodation and food (69%). In another five industries at least half of the workforce is employed by small businesses. Lastly, in terms of the total number of employees, industries that had the largest number of employees working for small firms were, in order of magnitude, retail trade (0.79 million), accommodation and food (0.65 million), manufacturing (0.64 million), construction (0.52 million), wholesale trade (0.41 million) and professional services (0.40 million). These industries alone accounted for 68% of all jobs in small firms in Canada.

5. Private sector employment in the SEPH data was identified with the aid of *Employment Dynamics* and *Small Business Profiles* data for corresponding years and by projecting trends for more recent years. A technical note on the methodology used in this process is available and can be obtained by contacting **Customer Services** at **prg-sbpb@ic.gc.ca**. In addition to the industries excluded from SEPH, data shown in Table 4 and Figure 3 exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners), and beer and liquor stores.

Table 4: Number of Private Sector Employees by Industry and Size of Business Enterprise, 2004[1,2,3]

		Size of Business Enterprise (No. of Employees)								
Industry	**Total**	**0–4**	**5–19**	**20–49**	**50–99**	***Small (<100)***	**100–299**	**300–499**	***Medium (100–499)***	**Large (500+)**
Forestry	52 367	9 706	13 556	7 738	4 906	*35 905*	5 029	1 390	*6 419*	10 044
Mining	155 088	7 652	12 779	11 241	9 045	*40 718*	19 074	7 515	*26 589*	87 781
Utilities[2]	107 822	91	408	357	450	*1 307*	2 795	1 128	*3 923*	102 592
Construction	667 586	123 939	204 058	120 636	68 682	*517 314*	62 272	16 551	*78 822*	71 449
Manufacturing	1 996 455	43 730	172 269	217 455	210 537	*643 991*	348 166	150 138	*498 303*	854 162
Percent in Goods-Producing Sector	**28.9**	**20.8**	**22.4**	**26.7**	**29.5**	***24.7***	**36.3**	**40.4**	***37.4***	**30.8**
Wholesale Trade	741 018	51 864	145 508	120 703	87 427	*405 501*	106 915	36 144	*143 059*	192 458
Retail Trade	1 644 075	118 178	297 343	208 058	169 696	*793 274*	136 136	28 168	*164 304*	686 496
Transportation and Warehousing[2]	513 397	39 629	62 999	51 925	39 170	*193 723*	53 382	17 665	*71 047*	248 627
Information and Cultural	343 195	10 358	23 678	22 431	20 353	*76 820*	30 406	14 603	*45 008*	221 367
Finance and Insurance	575 967	24 629	41 425	36 567	31 639	*134 259*	46 231	20 550	*66 781*	374 928
Real Estate and Rental	233 494	38 831	55 279	30 937	20 922	*145 969*	23 625	9 222	*32 847*	54 679
Professional Services	659 929	124 112	141 130	85 898	53 347	*404 487*	70 776	30 246	*101 021*	154 421
Management of Companies and Enterprises	90 674	13 045	14 243	10 674	6 026	*43 988*	9 523	4 107	*13 630*	33 057
Administration, Waste Management	627 851	46 527	86 540	64 578	53 710	*251 354*	91 131	38 704	*129 835*	246 663
Health[2]	216 968	73 893	91 374	22 820	6 259	*194 345*	2 117	1 103	*3 220*	19 403
Arts, Entertainment and Recreation	244 480	14 354	40 808	38 622	28 853	*122 636*	36 769	13 801	*50 570*	71 274
Accommodation and Food	941 324	51 577	227 809	217 238	148 486	*645 109*	111 437	29 247	*140 683*	155 534
Other Services	505 793	97 488	166 896	69 545	37 493	*371 422*	50 360	17 470	*67 829*	66 542
Percent in Service-Producing Sector	**71.1**	**79.2**	**77.6**	**73.3**	**70.5**	***75.3***	**63.7**	**59.6**	***62.6***	**69.2**
Industry Aggregate Total	**10 317 481**	**889 599**	**1 798 100**	**1 337 419**	**996 999**	***5 022 118***	**1 206 141**	**437 748**	***1 643 889***	**3 651 474**

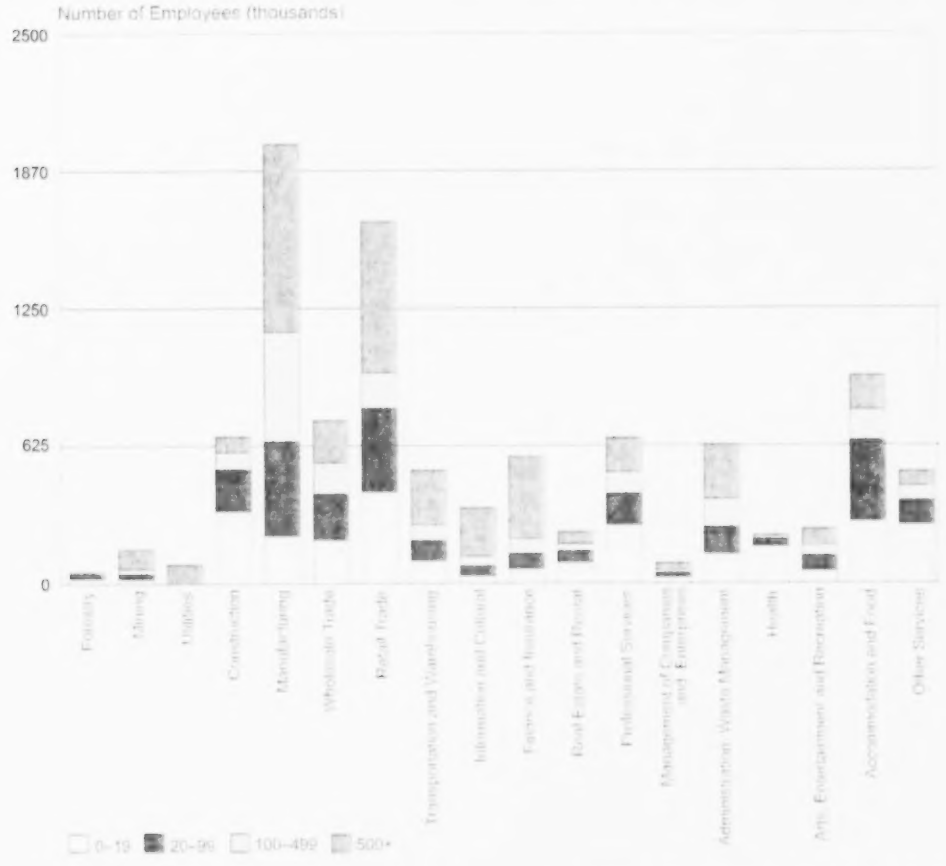
Source: Statistics Canada, *Survey of Employment, Payrolls and Hours* (SEPH), March 2005, and calculations by Industry Canada. Industry data are classified in accordance with the North American Industry Classification System (NAICS).

Note 1: SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. The data breaking down employment by size of firm also exclude unclassified industries.

Note 2: Besides the data excluded from the SEPH, the data shown in this table also exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners), and beer and liquor stores. Industry Canada's *Small Business Quarterly* regularly publishes data similar to those in Table 4, but without excluding public sector employment. A technical note on the separation of public and private sector employment is available upon request by contacting **Customer Services** at **prg-sbpb@ic.gc.ca**.

Note 3: By conventional Statistics Canada definition, the goods-producing sector consists of North American Industry Classification System (NAICS) codes 11 to 31–33, while NAICS codes 41 to 91 define the service-producing sector.

Figure 3: Number of Private Sector Employees by Industry and Size of Business Enterprise, 2004[1,2]



Source: Statistics Canada, *Survey of Employment, Payrolls and Hours* (SEPH), March 2005, and calculations by Industry Canada. Industry data are classified in accordance with the North American Industry Classification System (NAICS).

Note 1: SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. The data breaking down employment by size of firm also exclude unclassified industries.

Note 2: Besides the data excluded from the SEPH, the data shown in this figure also exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners), and beer and liquor stores. Industry Canada's *Small Business Quarterly* regularly publishes data similar to those in Figure 3, but without excluding public sector employment. A technical note on the separation of public and private sector employment is available upon request by contacting **Customer Services** at **prg-sbpb@ic.gc.ca**.

How many jobs do small businesses create?

The data that make it possible to answer this question are derived from Statistics Canada's *Survey of Employment, Payrolls and Hours* (SEPH), and are regularly published in Industry Canada's *Small Business Quarterly*. SEPH data exclude self-employed workers who are not on a payroll. Other limitations also apply (see **How many people work for small businesses?**). Historical employment data for the period from 1994 to 2000 are reported for only three firm-size categories, so job creation over these years was estimated for the seven size categories using ratios to distribute annual employment levels across the size categories. Since 2000, Statistics Canada has been publishing the SEPH data with the seven size categories.

Table 5 and Figure 4 display relative contributions to the net year-over-year change in private sector paid employment by small, medium and large businesses from 1994 to 2004. Over the years, the relative contribution in terms of size varied greatly. During the period under review, each of the business-size categories played the leading role at different times in net job creation in Canada. For six years, in 1996 and 1997 and from 2000 to 2003, small businesses made the greatest contribution to net job creation. On the other hand, at the beginning of this period, in 1994 and 1995, medium-sized businesses created the most jobs, and in 1998, 1999 and 2004, large businesses played the leading job-creation role. Because both small and medium-sized businesses simultaneously shed jobs while large businesses created a large number of jobs, 2004 was an atypical year. The jobs created were concentrated in retail trade; administrative, waste management and remediation services; and accommodation and food services.

A significant limitation of these data is that they are for a period when the economy was generally expanding, with only a mild downturn in 1995–96. In a more severe downturn or a recession, the percentage contributions to job creation (or loss) by smaller businesses may be quite different.

Table 5: Percent Contribution to the Net Change in Private Sector Paid Employment by Size of Business Enterprise (Annual Averages), 1994–2004[1,2]

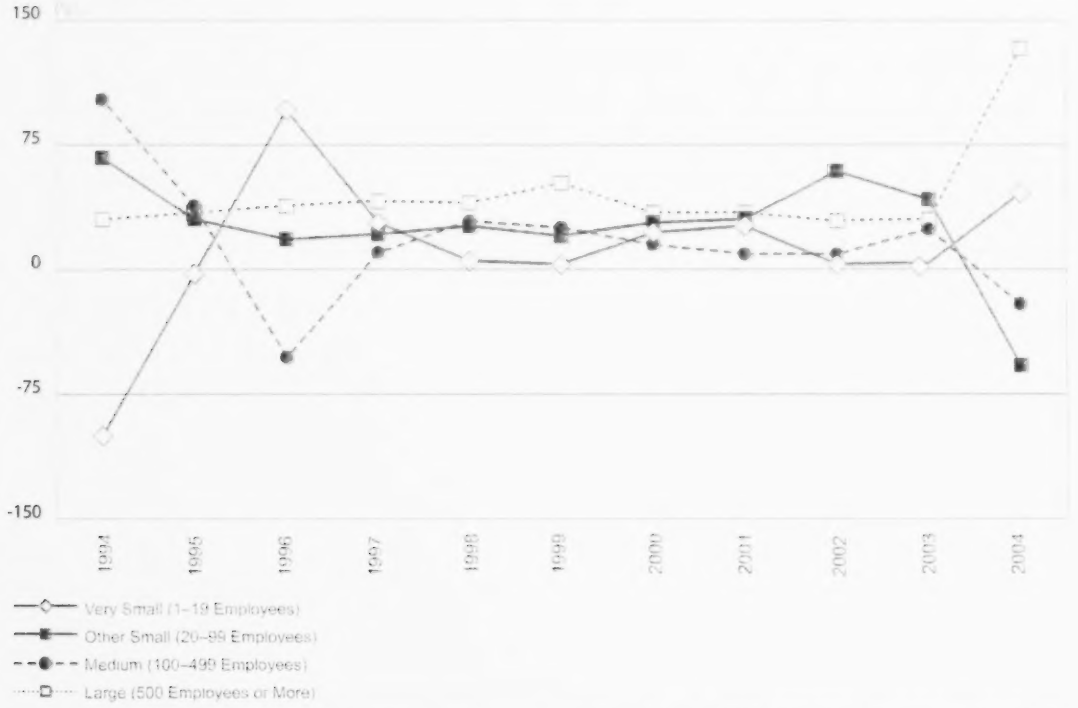
	Size of Business — Number of Employees (Percent Contribution)						
Year	**0–4**	**5–19**	**20–49**	**50–99**	***Small* (<100)**	***Medium* (100–499)**	**Large (500+)**
1994	-7	-93	21	46	*-32*	*102*	30
1995	2	-5	7	23	*27*	*38*	34
1996	7	88	38	-20	*114*	*-53*	38
1997	3	25	11	10	*49*	*10*	41
1998	2	3	14	12	*31*	*29*	40
1999	4	-1	9	11	*23*	*25*	52
2000	4	18	17	11	*50*	*15*	34
2001	16	10	17	13	*57*	*9*	34
2002	-2	5	28	31	*62*	*9*	29
2003	7	-3	19	23	*46*	*24*	30
2004	-27	73	-19	-39	*-12*	*-21*	133

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours* (SEPH), March 2005, and calculations by Industry Canada. Historical data are frequently revised and, as of 2000, are available on a North American Industry Classification System (NAICS) basis. Updates for the total economy covered by SEPH are regularly published in *Small Business Quarterly*.

Note 1: SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. Data in this table also exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners), and beer and liquor stores.

Note 2: Differences between these data and those published in previous versions of *Key Small Business Statistics* are largely due to revisions to the historical SEPH data. A small proportion of the differences is the result of refinements in the methodology used to separate the private and public sectors. A technical note on the separation of public and private sector employment is available upon request by contacting **Customer Services** at **prg-sbpb@ic.gc.ca**.

Figure 4: Percent Contribution to the Net Change in Private Sector Paid Employment by Size of Business Enterprise, 1994–2004



Source: Statistics Canada, *Survey of Employment, Payrolls and Hours* (SEPH), March 2005, and calculations by Industry Canada. Historical data are frequently revised and, as of 2000, are available on a North American Industry Classification System (NAICS) basis. Updates for the total economy covered by SEPH are regularly published in *Small Business Quarterly*.

Table 6 and Figure 5 show year-over-year quarterly changes in paid employment, starting in the first quarter of 2002, by business size. These data indicate that total private sector jobs continued to increase over the 14 consecutive quarters since the first quarter of 2002. Job creation was positive over each of these 14 quarters and the number of jobs created increased over the four quarters of 2002 but declined thereafter until the second quarter of 2004. The number of jobs created increased in each successive quarter of 2004 and remained fairly constant in the first two quarters of 2005.

Small businesses created the majority of net new jobs between the first quarter of 2002 and the second quarter of 2004, except for the first two quarters of 2003. In the second, third and fourth quarters of 2004, and in the first quarter of 2005, small businesses had negative net job creation. Over these quarters, large firms were responsible for all of the net job creation. Large businesses were also responsible for the bulk of job creation in the second quarter of 2005, while small and medium-sized businesses created a modest number of jobs.

Table 6: Year-Over-Year Net Private Sector Paid Employment Change, and Percent Contribution by Size of Business Enterprise, Quarterly, 2002 Q1 to 2005 Q2[1,2,3]

Year and Quarter	Total Net Change	Net Private Sector Paid Employment Change by Size of Business								
		0–4	5–19	20–49	50–99	*Small (<100)*	100–299	300–499	*Medium (100–499)*	Large (500+)
2002 Q1	88 918	-9 258	30 486	40 973	31 936	*94 137*	-5 048	-23 115	*-28 162*	22 941
Q2	205 828	-4 123	9 503	71 816	77 313	*154 509*	41 871	-27 943	*13 928*	37 387
Q3	307 575	-1 590	2 636	76 253	90 732	*168 030*	71 610	-23 305	*48 305*	91 229
Q4	388 799	-4 421	8 506	91 029	105 930	*201 044*	68 482	-13 669	*54 813*	132 943
2003 Q1	320 200	5 831	1 576	64 425	80 720	*152 552*	53 217	7 315	*60 533*	107 116
Q2	191 737	13 690	1 255	23 546	24 198	*62 689*	31 679	9 872	*41 551*	87 499
Q3	69 510	13 248	-6 940	17 292	14 296	*37 896*	16 048	6 486	*22 533*	9 077
Q4	34 594	7 809	-13 540	13 364	20 906	*28 538*	15 401	7 446	*22 847*	-16 787
2004 Q1	16 843	-3 399	3 032	1 194	8 619	*9 446*	-3 963	-23 653	*-27 616*	35 014
Q2	58 571	-24 154	75 666	-28 091	-42 702	*-19 281*	-34 837	12 174	*-22 663*	100 513
Q3	120 773	-36 598	82 734	-16 191	-45 507	*-15 563*	-28 655	9 501	*-19 154*	155 497
Q4	136 717	-25 167	81 629	-20 956	-50 218	*-14 711*	-3 916	4 302	*386*	151 041
2005 Q1	132 107	-14 741	52 292	-25 400	-43 102	*-30 951*	11 658	23 766	*35 424*	127 629
Q2	128 657	-5 330	-6 829	19 547	13 166	20 554	41 966	-17 659	24 306	83 800
	% Contribution to Private Sector Employment Change by Size of Business									
2002 Q1	100	-10.4	34.3	46.1	35.9	*105.9*	-5.7	-26.0	*-31.7*	25.8
Q2	100	-2.0	4.6	34.9	37.6	*75.1*	20.3	-13.6	*6.8*	18.2
Q3	100	-0.5	0.9	24.8	29.5	*54.6*	23.3	-7.6	*15.7*	29.7
Q4	100	-1.1	2.2	23.4	27.2	*51.7*	17.6	-3.5	*14.1*	34.2
2003 Q1	100	1.8	0.5	20.1	25.2	*47.6*	16.6	2.3	*18.9*	33.5
Q2	100	7.1	0.7	12.3	12.6	*32.7*	16.5	5.1	*21.7*	45.6
Q3	100	19.1	-10.0	24.9	20.6	*54.5*	23.1	9.3	*32.4*	13.1
Q4	100	22.6	-39.1	38.6	60.4	*82.5*	44.5	21.5	*66.0*	-48.5
2004 Q1	100	-20.2	18.0	7.1	51.2	*56.1*	-23.5	-140.4	*-164.0*	207.9
Q2	100	-41.2	129.2	-48.0	-72.9	*-32.9*	-59.5	20.8	*-38.7*	171.6
Q3	100	-30.3	68.5	-13.4	-37.7	*-12.9*	-23.7	7.9	*-15.9*	128.8
Q4	100	-18.4	59.7	-15.3	-36.7	*-10.8*	-2.9	3.1	*0.3*	110.5
2005 Q1	100	-11.2	39.6	-19.2	-32.6	*-23.4*	8.8	18.0	*26.8*	96.6
Q2	100	-4.1	-5.3	15.2	10.2	*16.0*	32.6	-13.7	*18.9*	65.1

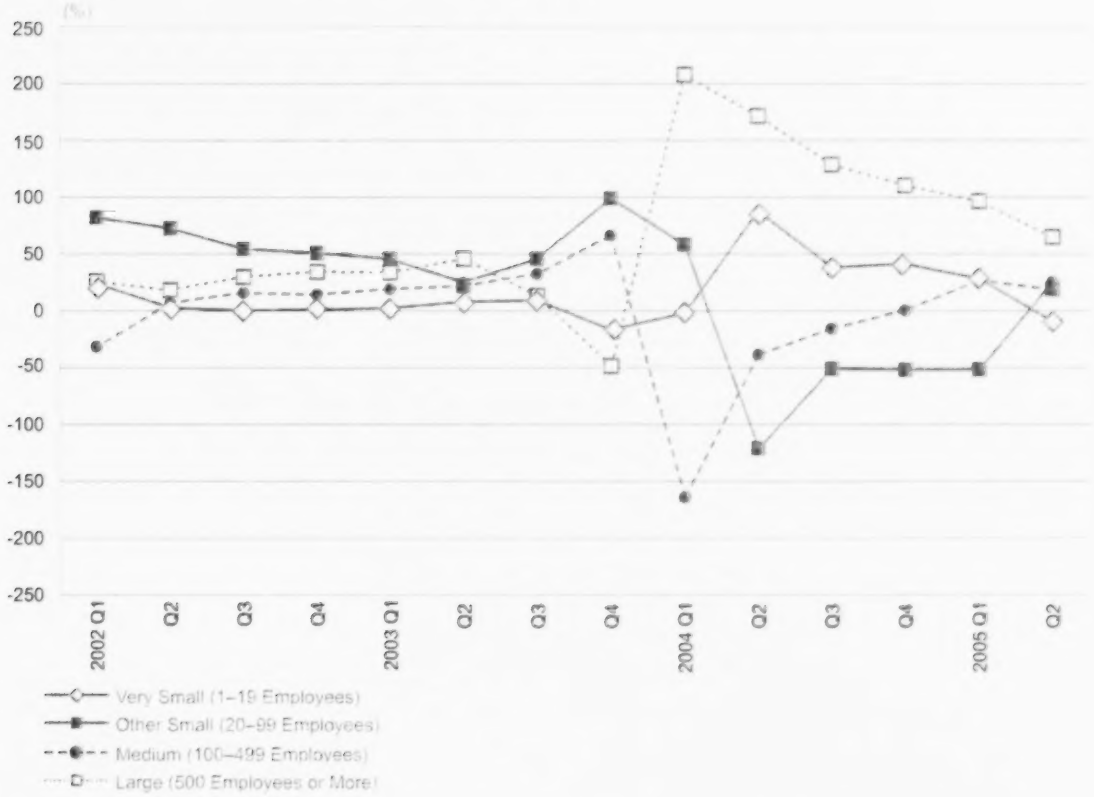
Source: Statistics Canada, *Survey of Employment, Payrolls and Hours* (SEPH), September 2005, and calculations by Industry Canada.

Note 1: SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. Data in this table also exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners), and beer and liquor stores.

Note 2: Differences between these data and those published in previous versions of *Key Small Business Statistics* are largely due to revisions to the historical SEPH data. A small proportion of the differences is the result of refinements in the methodology used to separate the private and public sectors. A technical note on the separation of public and private sector employment is available upon request by contacting **Customer Services** at **prg-sbpb@ic.gc.ca**.

Note 3: Minor discrepancies between total net employment change and the sum of changes by size are largely due to small differences between aggregate and the sum of disaggregated source data.

Figure 5: Percent Contribution to Year-Over-Year Net Change in Private Sector Employment, by Size of Business Enterprise, Quarterly, 2002 Q1 to 2005 Q2[1,2]



Source: Statistics Canada, *Survey of Employment, Payrolls and Hours* (SEPH), September 2005, and calculations by Industry Canada.

Note 1: SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. Data in this figure also exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners), and beer and liquor stores.

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What is the contribution of small businesses to employment creation by growth firms?

The Canadian economy is a dynamic one with a great deal of churning, that is, the entry and exit of firms. Within this ever-changing environment, start-ups and new firms are very important for creating jobs and wealth, but a small number of growth firms make very large contributions to employment creation. Industry Canada's Small Business Policy Branch has completed several studies on firm growth and job creation using firm-level data on Canadian employer firms. The first study[6] examined the 1985–1999 period, which covers both expansionary and recessionary periods.

Businesses that operated over the full period were categorized, based on their employment growth between 1985 and 1989, as hyper growth (those that grew more than 150% over these four years), strong growth (50–150% growth), slow growth (positive growth less than 50%) or declining firms (negative growth). Firms were then tracked between 1985 and 1999 to investigate which firms contributed to employment growth and how many small firms grew into larger firms.

Although churning was responsible for the bulk of job creation between 1985 and 1999, continuing businesses made a very important contribution to job creation over this period. Table 7 shows that of the 728 000 firms operating in 1985, only 199 000 firms continued to operate in 1999, and they created nearly 500 000 net jobs. Small firms (businesses with fewer than 100 employees) contributed greatly to employment growth over this period with net job creation of 661 000. Medium-sized businesses (those with between 100 and 499 employees) created 184 000 jobs, while large businesses (those with 500 or more employees) shed 348 000 jobs over this period.

The contribution of hyper and strong growth enterprises to employment creation is remarkable, particularly on the part of small businesses. As shown in Table 7, hyper and strong growth firms numbered 48 000, accounting for less than 7% of the number of private sector firms in operation in 1985, but created 974 000 jobs over the 14 years between 1985 and 1999. Over 47 000 of these firms were small businesses and they created 612 000 jobs, accounting for 123% of the net jobs created in the private sector. This included 155 000 jobs created by micro hyper and strong growth businesses. Furthermore, the actual contribution of very small firms is likely understated because owner-operators are likely not included as employees. In contrast, employment in slow growth and declining firms fell over the 1985–1999 period principally because of the 528 000 jobs lost in large firms.

6. Further results and more information on the database are available in *Growth Firms Project: Key Findings* at **http://strategis.ic.gc.ca/sbresearch/growthfirms/highlights**.

Table 7: Number of Businesses, Net Employment Creation and Percentage Contribution by Growth Category and Size of Firm, Canada, 1985–1999

Growth Category		Small (0–99)	Medium (100–499)	Large (500+)	All Firms
Hyper and Strong Growth Firms (at least 50% employment growth between 1985 and 1989)	Number of businesses	47 302	592	111	48 005
	% of all continuing firms	23.8	0.3	0.1	24.1
	Jobs created	612 243	181 461	180 717	974 421
	% of jobs created by continuing firms	123.0	36.5	36.3	195.8
Slow Growth and Declining Firms (less than 50% employment growth between 1985 and 1989)	Number of businesses	146 299	3 638	935	150 872
	% of all continuing firms	73.6	1.8	0.5	75.9
	Jobs created	49 098	2 514	-528 408	-476 796
	% of jobs created by continuing firms	9.9	0.5	-106.2	-95.8
All Continuing Firms (Firms that operated between 1985 and 1999)	Number of businesses	193 601	4 230	1 046	198 877
	% of all continuing firms	97.3	2.1	0.5	100.0
	Jobs created	661 341	183 975	-347 691	497 625
	% of jobs created by continuing firms	132.9	37.0	-69.9	100.0

Source: C. Parsley and E. Dreessen, *Growth Firms Project: Key Findings*, Industry Canada, 2004.

How much do employees of small businesses earn?

Statistics Canada's *Survey of Employment, Payrolls and Hours* (SEPH) publishes average weekly earnings at the enterprise level based on weekly payroll data. Data include gross pay, as well as overtime and bonuses, commissions and other special payments, before major deductions such as income taxes, employment insurance contributions, etc., but exclude taxable allowances and benefits, and employer contributions to employment insurance, pension plans and other welfare plans. Average weekly earnings are derived by dividing total weekly payrolls by payroll employment (see **How many people work for small businesses?**). SEPH excludes self-employed persons not on a payroll, and does not cover the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. The data shown below also exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners), and beer and liquor stores.

In 2004, an average worker in Canada's private sector earned approximately $716 per week (Table 8 and Figure 6). Generally, employees' weekly earnings were positively related to the size of the business: employees working for businesses with fewer than 100 employees earned below the average with weekly earnings of $617, whereas those working for medium-sized firms (more than 100 but fewer than 500 employees) and large firms (more than 500 employees) earned above the average with weekly earnings of $744 and $797, respectively. In service sector firms, micro firms had the highest weekly earnings of all small businesses at $611. An explanation for this is that employment in larger small firms is found in the three lowest-paying industries, namely retail trade; accommodation and food services; and arts, entertainment and recreation.

On average in 2004, employees in the goods-producing sector were paid $270 more per week than those working in the service-producing sector. The difference in earnings between the two sectors was greatest in large firms, at approximately $360 per week, or an annual average differential of $18 770. However, goods-producing employees also worked longer hours, so on a per-hour basis the difference in earnings would be less pronounced.

Table 8: Average Weekly Earnings by Firm Size (Number of Employees) in the Private Sector, 2004[1,2]

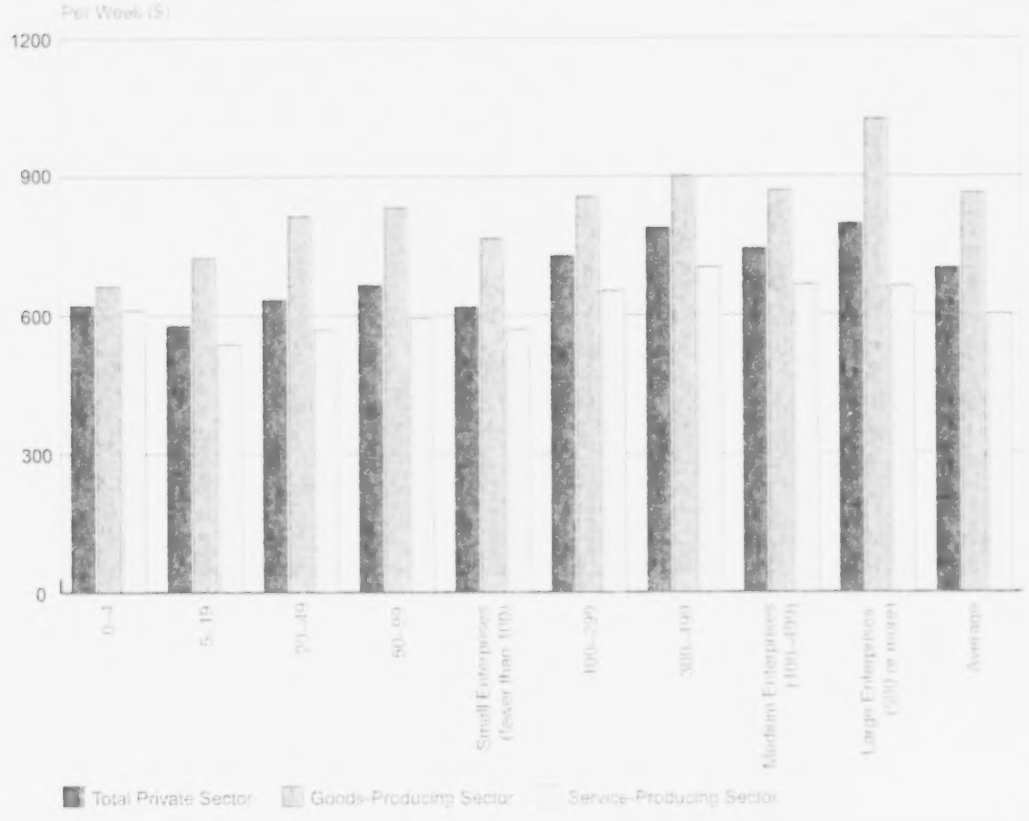
Number of Employees	Private Sector	Goods-Producing Sector[2]	Service-Producing Sector[2]
0–4	$621	$663	$611
5–19	$578	$724	$537
20–49	$633	$814	$568
50–99	$664	$832	$594
Small Enterprises (fewer than 100)	*$617*	*$766*	*$570*
100–299	$728	$856	$653
300–499	$789	$902	$704
Medium-Sized Enterprises (100–499)	*$744*	*$869*	*$666*
Large Enterprises (500 or more)	*$797*	*$1024*	*$663*
Average	**$716**	**$885**	**$615**

Source: Statistics Canada, *Survey of Employment, Payrolls and Hours* (SEPH), March 2005, and calculations by Industry Canada.

Note 1: SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. Data in this table also exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners), and beer and liquor stores. A technical note on the separation of public and private sector employment is available upon request by contacting **Customer Services** at **prg-sbpb@ic.gc.ca**.

Note 2: By conventional Statistics Canada definition, the goods-producing sector consists of North American Industry Classification System (NAICS) codes 11 to 31–33, while NAICS codes 41 to 91 define the service-producing sector.

Figure 6: Average Weekly Earnings in the Goods-Producing and Service-Producing Sectors by Firm Size, in the Private Sector, 2004[1,2]



Source: Statistics Canada, *Survey of Employment, Payrolls and Hours* (SEPH), March 2005, and calculations by Industry Canada.

Note 1: SEPH data exclude self-employed workers who are not on a payroll, and employees in the following industries: agriculture, fishing and trapping, private household services, religious organizations and military personnel of defence services. Data in this figure also exclude employment in public administration, public utilities (water, sewage and other systems), postal services, public transit, educational services, and institutional and other government-funded health care services, but include employment in the CBC, private practices (physicians, dentists and other health practitioners), and beer and liquor stores. A technical note on the separation of public and private sector employment is available upon request by contacting **Customer Services** at **prg-sbpb@ic.gc.ca**.

Note 2: By conventional Statistics Canada definition, the goods-producing sector consists of North American Industry Classification System (NAICS) codes 11 to 31–33, while NAICS codes 41 to 91 define the service-producing sector.

What is the contribution of small businesses to Canada's Gross Domestic Product?

Gross Domestic Product (GDP) is a key measure of economic production, which can be used to compare any two industries' value added. Value added is the value that an industry, through its activities, adds to its inputs. The main advantage of the GDP concept is that it avoids double-counting. Because it measures unduplicated value added, GDP is considered more useful for gauging economic performance than, say, revenue, business counts or even employment.

GDP data are not available by firm size but the Government of British Columbia's statistical service (BC Stats) has developed a method to determine the small business contribution to GDP by province, using the income-based approach of the System of National Accounts.[7] The percentage of small business's contribution to GDP for Canada and each province from 1993 to 2004 is shown in Table 9.

BC Stats' definition of small business is limited to businesses with fewer than 50 employees, plus those operated by the self-employed with no paid employees. By this definition, it is estimated that, in 2004, small businesses accounted for approximately 22% of Canada's GDP. The percentage varies from a low of 14% in Newfoundland and Labrador to a high of 26% in British Columbia. Over time, the contribution of small businesses to GDP has declined slightly at the national level. In the largest provinces (Ontario and Quebec) and Nova Scotia, the contribution of small businesses has remained fairly constant, while the contribution has been declining in other provinces. This is particularly true for Newfoundland and Labrador, Prince Edward Island and Saskatchewan, whose contributions declined by approximately 30% between 1993 and 2004.

7. A background note describing the method in somewhat greater detail is available upon request by contacting **Customer Services** at **prg-sbpb@ic.gc.ca**.

Table 9: Small Business Contribution to GDP by Province, 1993–2004[1,2]

Province	Contribution to GDP (percent)											
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Newfoundland and Labrador	21	20	21	21	21	19	17	17	18	16	15	14
Prince Edward Island	34	33	34	28	27	26	25	30	28	31	27	24
Nova Scotia	24	24	27	26	24	23	22	25	24	24	24	22
New Brunswick	26	25	27	25	24	23	22	23	23	24	24	22
Quebec	26	26	27	26	24	23	23	25	25	26	26	24
Ontario	22	22	24	23	22	22	22	22	23	23	23	21
Manitoba	24	24	25	26	24	22	21	21	22	23	23	20
Saskatchewan	29	27	29	31	26	27	25	22	23	24	23	20
Alberta	26	25	28	26	26	27	24	22	23	27	24	20
British Columbia	32	31	32	31	30	29	27	27	28	30	30	26
Canada	**25**	**24**	**26**	**25**	**24**	**24**	**23**	**23**	**24**	**25**	**24**	**22**

Source: BC Stats.

Note 1: In these data, small businesses comprise businesses with fewer than 50 employees, plus those operated by the self-employed with no paid employees.

Note 2: Differences between these data and those published in previous versions of *Key Small Business Statistics* are due to revisions made to the overall GDP estimates.

Who is self-employed?

Self-employed workers are people who earn income directly from their own business, trade or profession rather than earn a specified salary or wage from an employer. Statistics Canada defines the self-employed as working owners of an unincorporated or incorporated business, persons who work on their own account but do not have a business and persons working without pay in a family business.

How many people are self-employed?

In 2004, self-employed workers represented approximately 15% of all employed workers in the Canadian economy. The number of self-employed peaked at 2.45 million in 1999, subsequently declined over the next year, but by 2004 had climbed back to the 2.45-million peak. Moreover, quarterly data indicate that the number of self-employed in the last three quarters of 2004 exceeded this peak in annual data (Table 10). In recent years, slightly over one third of self-employed workers have been female; the share of female self-employment rose steadily from 1976 to 1998, from 26% to 36%, and has remained at around 35% since 1999.

Table 10: Total Number of Self-Employed Persons (Thousands) by Sex, Yearly and Quarterly, 1995–2004[1,2]

Year and Quarter	Total Self-Employment	Self-Employment as % of Total Employment	Male Self-Employed	% of Self-Employed	Female Self-Employed	% of Self-Employed
1995	2 079.0	15.7	1 375.6	66	703.4	34
1996	2 172.7	16.2	1 422.3	65	750.4	35
1997	2 352.8	17.2	1 519.5	65	833.3	35
1998	2 419.4	17.3	1 554.6	64	864.8	36
1999	2 452.2	17.0	1 592.5	65	859.7	35
2000	2 385.0	16.2	1 544.8	65	840.2	35
2001	2 278.1	15.2	1 504.2	66	773.8	34
2002	2 319.1	15.1	1 502.0	65	817.0	35
2003	2 399.9	15.3	1 569.7	65	830.2	35
2004	2 451.9	15.4	1 612.6	66	839.3	34
2002 Q1	2 242.7	15.2	1 448.2	65	794.5	35
Q2	2 310.9	15.1	1 503.5	65	807.4	35
Q3	2 353.6	15.0	1 533.3	65	820.3	35
Q4	2 369.2	15.3	1 523.2	64	846.0	36
2003 Q1	2 347.7	15.4	1 525.4	65	822.3	35
Q2	2 386.3	15.2	1 573.5	66	812.7	34
Q3	2 428.2	15.3	1 587.7	65	840.5	35
Q4	2 437.1	15.4	1 591.8	65	845.3	35
2004 Q1	2 396.4	15.4	1 564.8	65	831.6	35
Q2	2 462.4	15.4	1 620.3	66	842.1	34
Q3	2 483.3	15.3	1 647.2	66	836.1	34
Q4	2 465.2	15.4	1 618.0	66	847.2	34

Source: Statistics Canada, *Labour Force Survey*, March 2005.

Note 1: Figures for men and women may not add up to total due to rounding.

Note 2: Differences between these data and those published in previous versions of *Key Small Business Statistics* are due to revisions made to data from the *Labour Force Survey*.

Table 11 shows a breakdown of the self-employed in five categories from 1995 to 2004. On average in 2004, of 2.45 million self-employed workers, 64.7% had no paid help, 34.0% worked with paid help and 1.2% were unpaid family workers. Both self-employed workers with and without paid help are further categorized according to whether their businesses[8] were incorporated or not. Of those who worked without paid help, 1.2 million or 76% were unincorporated in 2004; this category accounted for half the total number of self-employed in Canada.

The number of self-employed persons with incorporated businesses increased 4.2% annually, on average, over the past 10 years (not shown), compared with 1.9% for all self-employed. However, there was a great difference in the pattern of growth between those with paid help and those without. The number

8. While the term "incorporated activities" generally refers to businesses, this is not necessarily the case when we speak of "unincorporated activities." According to the definition used by Statistics Canada's *Labour Force Survey*, self-employed workers involved in unincorporated activities are "active owners of a business, farm or unincorporated professional office and independent workers who do not have a business as such (child-care workers, newspaper delivery agents, etc.)."

of those with paid help grew 0.4% annually, on average, between 1995 and 2004. The number of self-employed persons with paid help declined from 1995 to 1998, except for a slight increase in 1997. The number jumped slightly in 1999 and declined until 2003 when two consecutive increases occurred for the first time since 1990 and 1991 (not shown). In contrast, the number of incorporated self-employed persons without paid help increased rapidly between 1995 and 2004, with average annual increases of 9.3%.

Table 11: Average Annual Number of Self-Employed Persons by Category (Thousands) and Average Annual Growth Rates (Percent), 1995–2004[1]

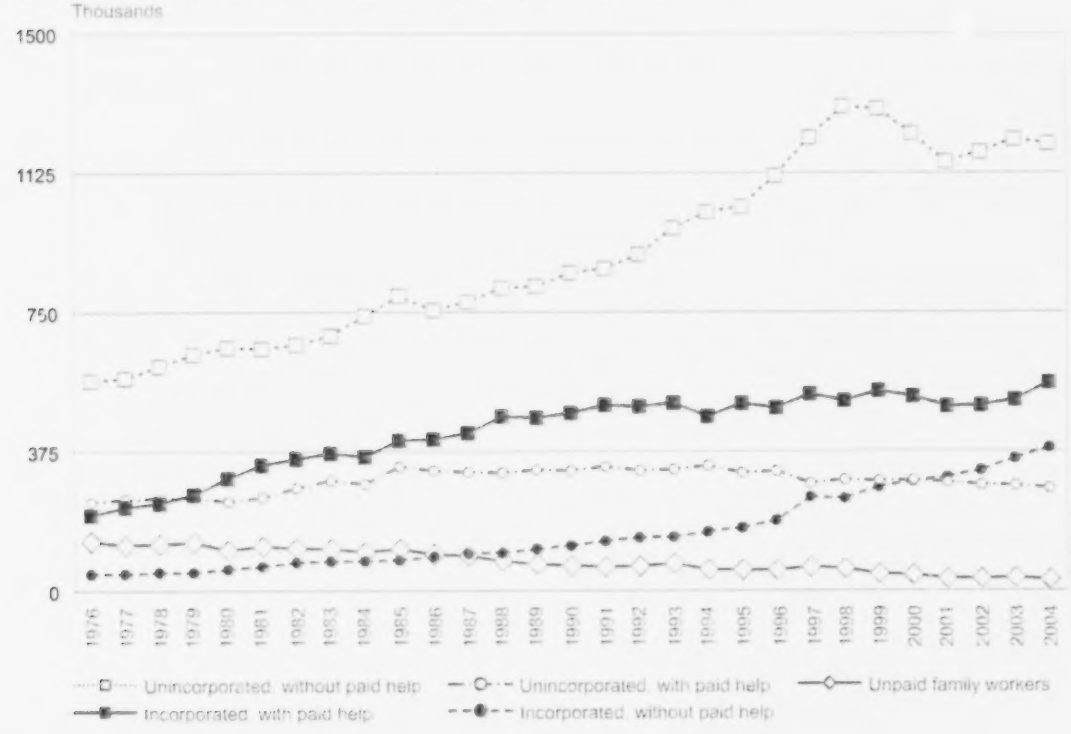
Year	Total	With Paid Help			Without Paid Help			Unpaid Family Workers
		Total	Incorporated	Unincorporated	Total	Incorporated	Unincorporated	
1995	2 079.0	820.7	503.8	316.9	1 202.3	169.1	1 033.2	56.0
1996	2 172.6	812.2	491.0	321.2	1 305.5	188.9	1 116.6	54.9
1997	2 352.9	817.4	528.7	288.7	1 471.6	252.3	1 219.3	63.9
1998	2 419.5	808.7	510.3	298.4	1 551.6	248.5	1 303.1	59.2
1999	2 452.2	832.0	536.8	295.2	1 575.1	278.4	1 296.7	45.1
2000	2 385.0	819.5	522.3	297.2	1 523.6	293.5	1 230.1	41.9
2001	2 278.1	787.4	495.5	291.9	1 458.2	304.1	1 154.1	32.5
2002	2 319.1	782.8	498.1	284.7	1 503.8	323.6	1 180.2	32.5
2003	2 399.9	796.1	513.0	283.1	1 570.0	355.1	1 214.9	33.8
2004	2 451.9	834.7	559.2	275.5	1 587.6	384.5	1 203.1	29.6
Average Annual Growth Rate, 1995–2004								
	1.9%	0.4%	1.8%	-2.0%	3.0%	9.3%	1.7%	-6.3%

Source: Statistics Canada, *Labour Force Survey*, March 2005.

Note 1: Differences between these data and those published in previous versions of *Key Small Business Statistics* are due to revisions made to data from the *Labour Force Survey*.

As shown in Figure 7, the various categories of self-employed workers experienced slightly different growth rates from 1976 to 2004, which means that the relative importance of these various categories changed slightly over time. The total number of self-employed workers in Canada increased at an annual rate of 2.5% during this period. Self-employed workers owning incorporated businesses registered the highest growth rates — 7.6% in businesses without paid employees and 3.6% in businesses with paid employees. A third category also showed a relative increase — 2.6% for self-employed workers owning unincorporated businesses with no paid employees. Lastly, two categories experienced growth rates below the 2.5% average rate for the group as a whole, which meant that their relative importance in the overall category of self-employed workers diminished. These two subgroups were self-employed workers owning unincorporated businesses with paid employees (0.5%), and unpaid family workers (-5.0%).

Figure 7: Self-Employed Persons (Thousands), by Category 1976–2004



Source: Statistics Canada, *Labour Force Survey*, March 2005.

How has self-employment contributed to job creation?

Generally, the increasing trend toward self-employment has supported total employment growth. Positive contributions to total net employment growth in the private sector have ranged from 14% to 60% per year between 1995 and 2004 (Table 12 and Figure 8).[9] Over the 1977–2004 period, there have been just three years (1986, 2000 and 2001) when the net change in self-employment was negative. In 1982, 1991 and 1992, self-employment grew strongly, while total employment growth turned negative due to economic recessions. It is interesting to note that the two greatest increases in the number of self-employed persons relative to the overall change in private sector employment occurred at the end of these recessions (in 1983 and 1993) — 167% in 1983 and 103% in 1993. This is because, when job market conditions tighten, people who cannot find suitable employment tend to start their own businesses and become self-employed.

9. In Table 12, employment in the private sector is defined as the total of self-employed workers and private sector employees, regardless of business size. The definition of private sector employees in the *Labour Force Survey* used in Table 12 is not identical to the definition in the *Survey of Employment, Payrolls and Hours* data in Tables 4 to 6 but the differences are minor.

Table 12: Private Sector Total Net Employment Change and Net Self-Employment Change, Year-Over-Year, 1995–2004[1,2,3]

Year	Private Sector Total Net Employment Change (thousands)	Private Sector Employees		Self-Employed Persons	
		Net Change (thousands)	% of Total Private Sector Employment Change	Net Change (thousands)	% of Total Private Sector Employment Change
1995	286.6	245.7	86	40.9	14
1996	203.5	109.8	54	93.7	46
1997	301.7	121.6	40	180.1	60
1998	359.5	292.9	81	66.6	19
1999	227.4	194.6	86	32.7	14
2000	196.6	263.8	134	-67.2	(-) 34
2001	119.9	226.8	189	-106.9	(-) 89
2002	289.6	248.6	86	41.0	14
2003	304.9	224.1	74	80.7	26
2004	195.6	143.6	73	52.0	27

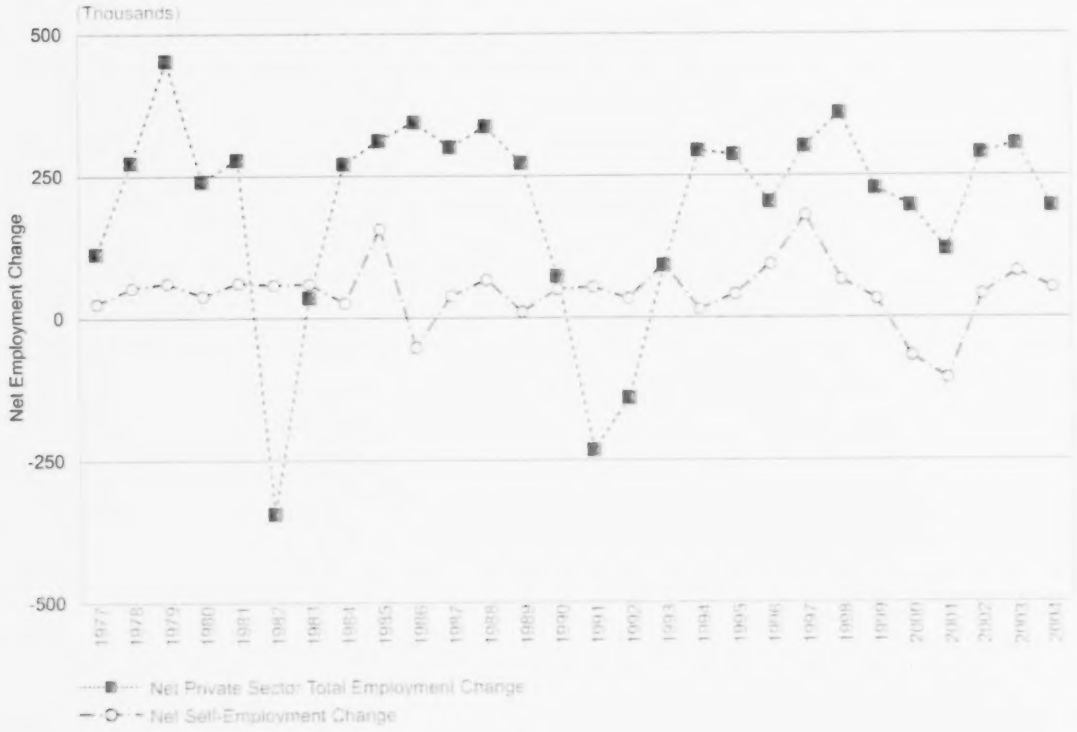
Source: Statistics Canada, *Labour Force Survey*, March 2005.

Note 1: (-) indicates a negative contribution to Total Net Employment Change.

Note 2: Net change figures may not add up to total net change due to rounding.

Note 3: Differences between these data and those published in previous versions of *Key Small Business Statistics* are due to revisions made to data from the *Labour Force Survey*.

Figure 8: Private Sector Total Net Employment Change and Net Self-Employment Change, Year-Over-Year (Thousands), 1977–2004



Source: Statistics Canada, *Labour Force Survey*, March 2005.

Do the self-employed work longer hours than employees?

The evidence is strong that the self-employed work longer hours than employees; this has been the case since at least 1987. The self-employed worked 41.8 hours per week in 2004 compared with 35.5 hours for employees, on average. Even more striking is the large difference in those who usually worked over 50 hours per week in 2004: 36% of self-employed persons worked over 50 hours compared with only 5% of employees (Figure 9). Clearly, the self-employed usually work longer hours than employees.

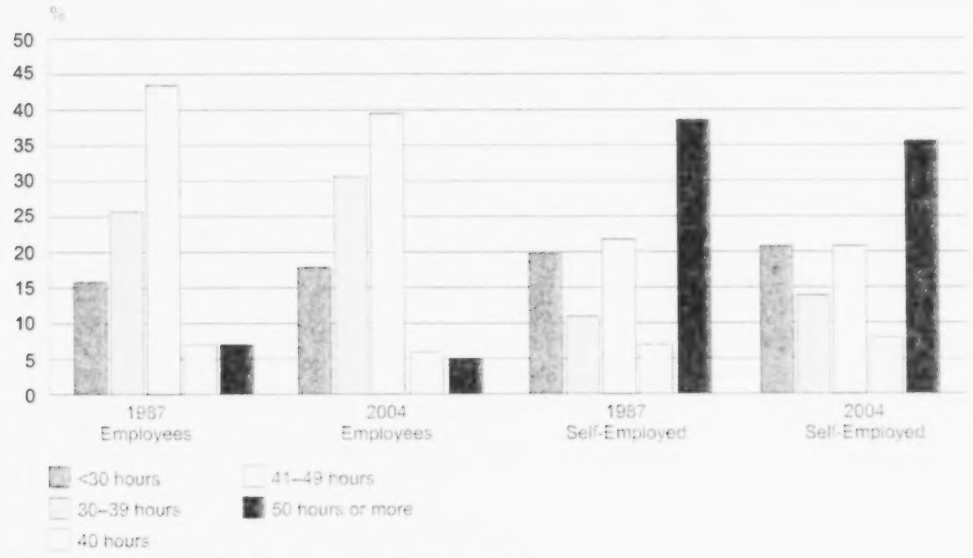
When it comes to working part-time (less than 30 hours per week), the self-employed are very similar to employees; 21% of the self-employed and 18% of employees worked part-time in 2004.

These differences between the self-employed and employees persisted over the 1987–2004 period, although there has been some abatement of the tendency of the self-employed to work over 50 hours per week since 1999. As well, there has been a small rise in the proportion of those working part-time, both among the self-employed and among employees.

As shown in Figure 10, there are also major differences between men and women in usual weekly hours worked: men are more likely to work long hours, while women are more likely to work part-time. On average, self-employed men worked 45.6 hours per week in 2004, compared with 34.3 hours for self-employed women. Furthermore, 43% of self-employed men worked over 50 hours in 2004, compared with 22% of self-employed women. The same pattern applies among employees, although at much lower levels: 7% of male employees worked over 50 hours in 2004 compared with 2% of female employees.

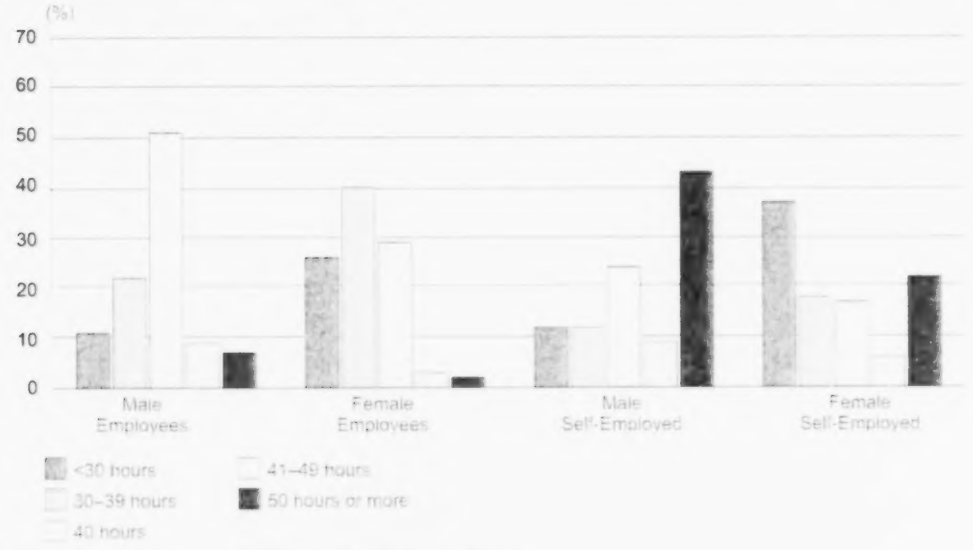
Females are more likely to work part-time, whether they are self-employed or are employees. Among the self-employed, 37% of women worked part-time (less than 30 hours) in 2004, compared with 12% of men. Among employees, 26% of women worked part-time in 2004, compared with 11% of men.

Figure 9: Percentage Distribution of Usual Weekly Hours of Employees and Self-Employed, 1987 and 2004



Source: Statistics Canada, *Labour Force Survey*, March 2005.

Figure 10: Percentage Distribution of Usual Weekly Hours Worked, by Class of Worker and Sex, 2004



Source: Statistics Canada, *Labour Force Survey*, March 2005.

How many small business entrepreneurs are women?

There is no easy way to precisely determine the number of entrepreneurs in Canada, much less the number of women entrepreneurs. However, it is possible to estimate the number using available data on self-employment and business ownership.

Statistics Canada's *Labour Force Survey* reports there were 839 000 self-employed women in Canada in 2004, accounting for about one third of all self-employed persons. (While not all of the self-employed would identify themselves as entrepreneurs, the number of self-employed women provides an upper limit for the number of female entrepreneurs.[10]) Over the past 10 years, the number of self-employed women has grown by 23%, compared with 20% growth in male self-employment.

Another way to count entrepreneurs is through business ownership. The report entitled *Small and Medium-Sized Enterprise (SME) Financing in Canada*, 2002[11] distinguishes four types of business ownership[12] based on gender: majority female ownership, equal partnership between male and female owners, minority female ownership and no female ownership.

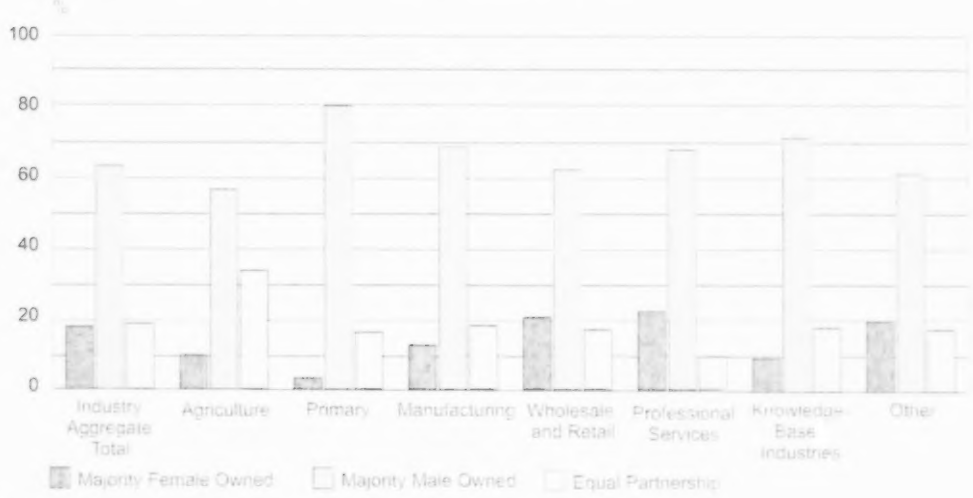
Based on the *Survey on Financing of Small and Medium Enterprises*, 2001, it is estimated that 47% of SMEs had some degree of female ownership in 2001. Of those, 39% were equal partnerships between male and female owners, 38% were majority owned by females and the remainder were minority owners in businesses majority owned by males. The degree of female ownership varied by industry, but it is clear that the percentage of female-owned businesses lags behind the percentage of majority male-owned businesses in every industry (Figure 11). Nearly one quarter of SMEs in professional services industries are majority female owned while only 3% of SMEs in primary industries are majority female owned.

10. Some entrepreneurs, especially if they are on the payroll of their own businesses, may not identify themselves as being self-employed; however, this number is likely to be smaller than the number of self-employed who are not entrepreneurs.

11. Government of Canada, *Small and Medium-Sized Enterprise (SME) Financing in Canada*, 2002, available at **http://strategis.gc.ca/fdi**. The report is based in part on Statistics Canada's *Survey on Financing of Small and Medium Enterprises*, 2000.

12. This report covers only commercial businesses, which represent approximately 64% of all business establishments.

Figure 11: Business Ownership Distribution by Sex and Industry, 2001



Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2001.

The survey found that SMEs majority owned by women were less likely than other SMEs to employ more than 20 employees and also started up more recently than firms that are majority owned by men. Women owners of SMEs also tended to have fewer years of experience in the industries in which they operated compared with their male counterparts.

Do small businesses innovate as much as large firms?

In a world with limited resources, the fastest way to boost productivity and economic growth is to innovate. Innovation is often thought to be synonymous with high technology inventions, but innovative behaviour encompasses much more than that. The government's January 2001 White Paper on Canada's Innovation Strategy defines innovation as "the creative process of applying knowledge and the outcome of that process."[13]

One indicator of innovative behaviour is the amount of research and development (R&D) expenditures a firm undertakes. R&D is not necessarily easy to measure, especially in the context of small businesses. However, certain data can be obtained, either through surveys or from tax records of firms that claim tax credits for R&D expenditures. Statistics on Scientific Research and Experimental Development tax credits reveal two telling facts about innovation by small businesses: they spend far less than large firms do in terms of absolute amounts; but, as a percent of revenue (R&D intensity), spending on innovation by small businesses far outstrips that of larger firms.

In 2002, according to Statistics Canada, nearly 9000 firms spent over $12 billion on R&D, as shown in Table 13. Of the total R&D spending, 20% came from some 7770 firms with fewer than 100 employees, or an average of $0.33 million per small business. On the other hand, just 288 large firms accounted for 60% of total R&D expenditures, an average of $25.6 million per firm. However, the proportion of R&D expenditure as a percentage of company revenue generally decreases with firm size.

Table 13: Scientific Research and Experimental Development Expenditures by Number of Employees, 2002

Number of Employees	Number of Companies	R&D Expenditures ($ millions)	Average Expenditure per Company ($ millions)	% of Performing Company Revenues
Non-commercial	18	163	9.1	—
1–49	6 959	1 489	0.2	5.0
50–99	811	1 042	1.3	10.2
100–199	509	1 109	2.2	6.7
200–499	307	1 201	3.9	4.8
500–999	114	1 165	10.2	3.5
1 000–1 999	88	1 815	20.6	2.8
2 000–4 999	48	1 120	23.3	1.2
≥5 000	38	3 279	86.3	1.2
Total	**8 892**	**12 383**	**1.4**	**2.2**

Source: Statistics Canada, *Industrial Research and Development — 2004 Intentions*, Cat. No. 88-202-XIB, January 2005.

Note: For firms funding or performing less than $1 million in R&D and applying for a tax credit under the Scientific Research and Experimental Development program, the data are derived from administrative data of the Canada Revenue Agency. For firms spending more than $1 million, the data are obtained from a mail-out survey of all firms.

13. Government of Canada, *Achieving Excellence: Investing in People, Knowledge and Opportunity*, January 2001, p. 4.

A broader gauge of innovative behaviour, but only among manufacturing firms, can be found in Statistics Canada's Survey of Innovation 1999.[14] The survey found that 75% of small businesses innovated, slightly less than the proportion of large firms (88%). Small businesses are defined here as manufacturing firms with between 20 and 49 employees. An innovative firm is one that offered new or significantly improved products (goods or services) or processes in the previous three years.

Although innovative companies in the manufacturing sector exhibited similar characteristics regardless of their size, the magnitude of innovation did vary with size. For example, small businesses scored lower than large firms in all measures of involvement in innovative activities, novelty of the innovation, rate of collaboration, use of intellectual property rights and use of government support.

Statistics Canada's Survey of Innovation 2003, which targeted selected service industries,[15] is another source of data on innovation. Similar to the manufacturing survey, this survey defines innovative establishments[16] as those that introduced a new or significantly improved product (good or service) on the market or integrated a new or significantly improved process during the survey period (from 2001 to 2003).[17]

The results from the Survey of Innovation 2003 suggest that the larger the service establishment, the more it innovates. As shown in Figure 12, 51% of establishments with 15 to 49[18] employees and 55% of establishments with 50 to 99 employees stated that they were innovators for the 2001–2003 period. For the same period, almost 70% of establishments with 100 employees or more identified themselves as innovative. Product innovation was the type of innovation developed by the majority of respondents: 83% of small, 83% of medium and 78% of large innovative establishments undertook this type of innovation. In comparison, process innovation was developed by 62% of small establishments, 54% of medium-sized establishments and 57% of large establishments.

14. The Survey of Innovation 1999 covered approximately 6000 provincial enterprises in manufacturing industries and asked about their innovative activities during the three-year period between 1997 and 1999. The definition of innovation, based on the Oslo manual (OECD, 1996), was the introduction of new or improved products or processes. Only firms with more than 20 employees and at least $250 000 in annual gross business revenues were included in the survey.

15. The industries covered by this survey were information and communication technology industries; selected professional, scientific and technical services; transportation industries; and natural resource support industries.

16. The Survey of Innovation 2003 uses the establishment as the base unit, whereas the previous survey (1999) used the business as the reference unit. For a discussion on the difference between establishment and business, see **How many businesses are there in Canada?**

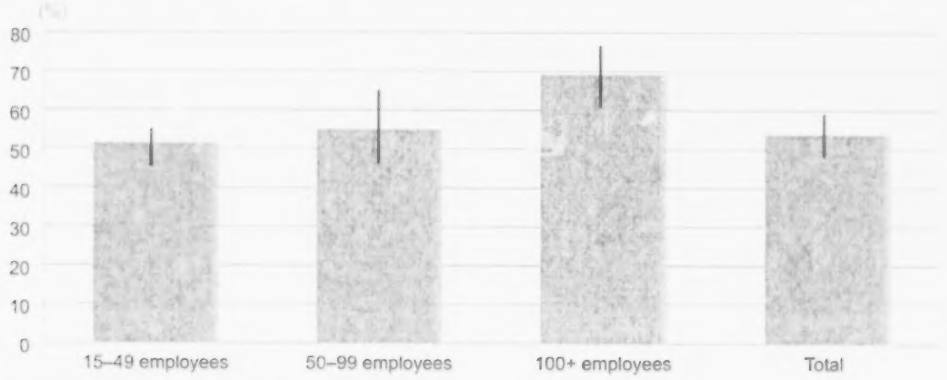
17. In this survey, an innovative product is a product new to the business, whose characteristics differ significantly from those of the unit's previous products. An innovative process is a new or significantly improved process as well as new or significantly improved ways of supplying services and delivering products that are new to the business.

18. Businesses with fewer than 15 employees were not included in the survey.

Survey results indicate that clients, management staff and R&D staff are each an important source of information for innovation development. The reasons most frequently cited for undertaking innovation are to help businesses stay competitive and to improve product quality. Conversely, non-innovators most often cited an absence of demand in their market as the reason they did not innovate.

Small establishments clearly identified economic challenges as the main obstacle to innovating. Small innovators also considered a lack of market information and qualified staff, which are the main obstacles to innovation encountered by medium-sized and large establishments.

Figure 12: Percentage of Innovative Service Establishments Based on the Number of Employees, Canada, 2001 to 2003



Source: Statistics Canada, Survey of Innovation 2003.

Note: The vertical rules indicate the 95% confidence intervals.

How many small businesses use e-business?

Engaging in electronic business (e-business) is defined as leveraging "the Internet for providing or sharing information, or for delivering services, and/or realizing some or all of its revenues from Internet-based transactions and/or the manufacture and sale of Internet-related products or services."[19] In addition to online purchases and transactions (referred to as e-commerce), e-business includes portfolio management, business planning, and Internet- or intranet-based communication between a business and its clients, suppliers and other partners.

Embracing e-business can offer many benefits to a firm, regardless of its size. Using the Internet as a business tool can improve coordination within the production process, improve communication with suppliers and customers, optimize supply sources and increase a firm's presence in the marketplace. However, the extent to which firms use e-business, and for what purposes, varies considerably depending on a firm's size.

Data on e-business are available from a variety of sources, which often do not agree. The reason for the discrepancies is that e-business survey results are very sensitive to sample selection and timing. The most reliable source of data on e-business is Statistics Canada's *Survey of Electronic Commerce and Technology* (SECT),[20] which covers more than 21 000 firms. It defines small firms as having fewer than 20 employees, medium-sized firms as having between 20 and 99 employees (499 for manufacturing) and large firms as having more than 100 employees (500 for manufacturing). Table 14 is based on this survey.

Having an Internet connection does not necessarily mean a business is embracing e-business, although being connected may serve as an indicator for the use of e-business because it is a minimum requirement for participation in almost any form of e-business. While the rate of small firms connecting to the Internet is increasing, they continue to lag behind medium-sized and large firms in terms of both connection rates and the ways in which the Internet is put to use in the business. The overall rate of firms connected to the Internet was 82% in 2004, but small firms, at 79%, lagged well behind the 96% and 99% of medium-sized and large firms connected to the Internet, respectively. However, small firms have been closing the gap in connection rates between themselves and medium-sized and large firms in recent years.

Website ownership rates also increase with firm size. More than twice as many medium-sized firms (69%) and large firms (79%) owned websites as small firms (32%). Over the past four years, the proportion of firms that own a website has increased across all categories of firm size.

19. *Fast Forward — Accelerating Canada's Leadership in the Internet Economy*. Report of the Canadian E-Business Opportunities Roundtable, January 2000, p.11.

20. The minimum level of revenue required to be included in Statistics Canada's *Survey of Electronic Commerce and Technology* (SECT) varies depending on the industry but ranges from $150 000 to $250 000 per year. Businesses with no full-time employees but that meet the minimum revenue criterion were included in the survey. Those without full-time employees included self-employed persons without paid help, seasonal businesses and virtual firms.

As firm size increases, there is clearly a higher percentage of firms that buy and sell online. Furthermore, the number of firms that buy online has been increasing in recent years and is now roughly five times the number of firms that sell online, and this holds true for all sizes of firms. Although the proportion of firms selling online has changed very little since 2001, the number of small and medium-sized firms purchasing online has doubled. For instance, only 7% of small firms sell online, while 40% purchase online; for medium-sized firms, 12% sell and 59% purchase online; and for large firms, 13% sell and 62% purchase online. This likely reflects the higher costs that are associated with setting up operations to sell online relative to the low costs of purchasing online.

Small firms that operate in service industries generally have more e-commerce activity than those operating in goods-producing industries. However, small firms have less activity related to e-commerce than medium-sized and large firms across all industries.

Table 14: Internet Access and Use by Firm Size (Percent), 2001–2004

		2001	2002	2003	2004
Internet Access	Small	68	73	76	79
	Medium	91	92	94	96
	Large	94	90	97	99
	All Firms	71	76	78	82
Own Website	Small	24	27	29	32
	Medium	57	62	66	69
	Large	74	77	77	79
	All Firms	29	32	34	37
Sell Online	Small	6	7	6	7
	Medium	12	13	14	12
	Large	15	16	16	13
	All Firms	7	8	7	7
Purchase Online	Small	20	29	35	40
	Medium	30	47	50	59
	Large	52	57	61	62
	All Firms	22	32	37	43

Source: Statistics Canada, *Survey of Electronic Commerce and Technology* (SECT), 2005.

Note: Statistics Canada's *Survey of Electronic Commerce and Technology* (SECT), on which these data are based, defines small firms as having fewer than 20 employees, medium-sized firms as having between 20 and 99 employees, and large firms as having more than 100 employees for all industries except manufacturing. The upper limit for the medium-sized category in the manufacturing industry is 499 employees while firms with 500 employees or more are defined as large.

What is the contribution of small businesses to Canada's exports?

Exporting is vital to Canada's economy, accounting for more than 40% of GDP in recent years. Exports can be a driver of economic growth and are strongly correlated with real GDP growth. Furthermore, exporting can provide a strategically important means of growing a firm by expanding its market beyond the confines of Canada's relatively small domestic market.

New exporter profiles tabulated the data by number of employees for 2002.[21] This new method showed that nearly 85% of Canadian exporters were small businesses (defined as enterprises with fewer than 100 employees).[22] More importantly, small businesses were responsible for 20% of the total value of exports in 2002, with an average value of $2.3 million. Medium-sized businesses accounted for 15% of the total value of exports in 2002, with an average value of $11.8 million, while large businesses accounted for 64%, with an average value of $194.5 million in exports. It is clear from the new data that small firms do make a significant contribution to Canada's exports.[23]

However, the proportion of small businesses that export is lower than the proportion of small businesses in the overall economy. Only 1.4% of small businesses export, while 27.0% of medium-sized businesses and 37.7% of large businesses participate in exporting.

Table 15 shows the distribution of the value of exports, by industry grouping, destination and size of firm in 2002. In all industries outside of the manufacturing and the mining, oil and gas extraction/utilities, small businesses made the largest contribution to exports of any firm-size category. In contrast, small businesses only contributed 9% of manufacturing exports, while large firms contributed 75% of these exports.

The distribution of exports by firm size differed a little by destination of exports (Table 15). The United States received 87% of exports and other destinations, principally the European Union and Japan, received 13%. This ratio remained constant, regardless of firm size.

While the majority of exports to the United States went to the Industrial Heartland and the Eastern Seaboard — reflecting the proximity to the large exporting provinces of Ontario and Quebec — small firms tended to concentrate on export to other regions. Small businesses accounted for 27% of exports to the Southeast and 26% to the West, compared with 13% for the Industrial Heartland.

Small and medium-sized enterprises accounted for 12% and 13%, respectively, of exports to the European Union, while large firms accounted for 75% of exports to this region. However, small firms accounted for approximately one quarter of Canadian exports to Japan and South America. This

21. For more information, please refer to D. Halabisky, B. Lee and C. Parsley, "Small Business Exporters: A Canadian Profile," Industry Canada, 2005, at **www.strategis.gc.ca/sbresearch**.

22. Before 2001, the Canadian Exporter Registry (which covers domestically produced merchandise and does not include services) tabulated data by value of exports, not by size of firm. According to this method, small exporters (defined as firms that export less than $1 million annually) only contributed 1.6% of the value of total exports in 2001. The implied conclusion was that small businesses do not make significant contributions to Canada's exports.

23. Export data shown here are at the enterprise level. Tabulating export data at the establishment level results in an even higher contribution by small businesses, because small establishments of large firms are included in the count.

suggests that small businesses send their exports to a broader range of countries than medium-sized and large firms. Large firms may concentrate on a small number of markets to take advantage of economies of scale.

Table 15: Distribution of Total Value of Goods Exports by Industry, Destination and Size of Business Enterprise (Number of Employees), 2002

		Employer Businesses				
			Size of Business Enterprise — Number of Employees (Percent of Total)			
		Total Value ($ millions)	Total	Small (<100)	Medium (100–499)	Large (500+)
Industry Grouping (NAICS)	Agriculture, Forestry, Fishing and Hunting	3 176	0.9	66.2	13.8	19.9
	Mining, Oil and Gas Extraction/Utilities	25 739	7.5	10.3	12.8	77.0
	Construction	810	0.2	80.9	17.0	2.1
	Manufacturing	256 128	74.6	9.0	16.3	74.7
	Wholesale Trade	23 209	6.8	67.6	21.2	11.1
	Retail Trade	1 724	0.5	69.7	10.8	19.5
	Transportation and Warehousing	8 600	2.5	86.1	4.1	9.8
	Information and Cultural Industries/Finance and Insurance	15 689	4.6	87.7	6.2	6.2
	Business Services	5 937	1.7	47.1	14.6	38.3
	Other	2 395	0.7	20.8	6.1	73.1
	Industry Aggregate Total	**343 406**	**100.0**	**20.4**	**15.5**	**64.2**
Destination of Export	**United States**					
	Eastern Seaboard	74 916	21.8	25.5	19.3	55.3
	Industrial Heartland	119 548	34.8	12.7	10.7	76.6
	Midwest	37 647	11.0	24.7	21.3	54.0
	Southeast	23 297	6.8	27.0	19.6	53.4
	West	42 911	12.5	26.4	13.3	60.3
	Total U.S. Exports	**298 319**	**86.9**	**20.5**	**15.2**	**64.2**
	Outside the United States					
	European Union	14 892	4.3	12.2	12.9	74.9
	Japan	9 408	2.7	25.4	23.8	50.8
	Mexico	2 196	0.6	9.9	16.0	74.0
	South America	1 887	0.5	22.9	14.8	62.2
	Other	16 703	4.9	22.8	16.8	60.4
	Total Non-U.S. Exports	**45 087**	**13.1**	**19.2**	**16.9**	**63.9**
	Exporter Registry Total	**343 406**	**100.0**	**20.4**	**15.5**	**64.2**

Source: Statistics Canada, Canadian Exporter Registry, July 2004.

Note: Figures may not add up due to rounding.